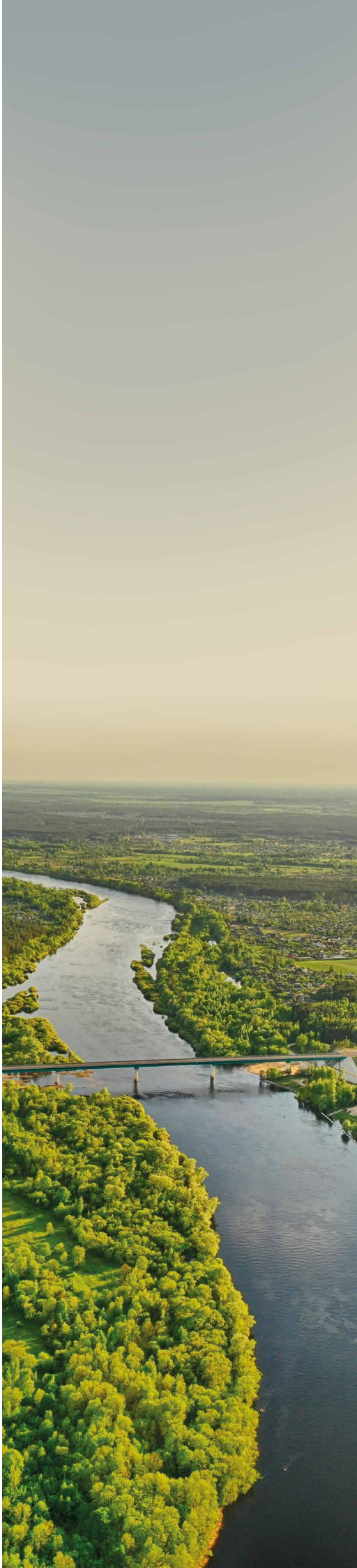
Eurasian
Development
Bank

Eurasian Development Bank Country strategy for the Republic of Belarus 2022–2026



Acronyms and abbreviations

2026 Strategy	– EDB 2022–2026 Strategy
AIIB	– Asian Infrastructure Investment Bank
Bank, EDB	– Eurasian Development Bank
Belarusian NPP	– Belarusian Nuclear Power Plant
Belstat	– National Statistical Committee of the Republic of Belarus
CIP	– current investment portfolio
DBRB	– Development Bank of the Republic of Belarus
EAEU	– Eurasian Economic Union
EBRD	– European Bank for Reconstruction and Development
EEC	– Eurasian Economic Commission
EFSD	– Eurasian Fund for Stabilization and Development
EIB	– European Investment Bank
ESG	– Environmental, Social and Corporate Governance
EU	– Eurasian Union
GDP	– gross domestic product
IBRD	– International Bank for Reconstruction and Development
ICT	– information and communication technology
IEA	– International Energy Agency
IFC	– International Finance Corporation
ILO	– International Labour Organisation
IMF	– International Monetary Fund
IRENA	– International Renewable Energy Agency
IT	– information technology
KIMP	– key investment mega-project
MDB	– multilateral development bank
NIB	– Nordic Investment Bank
NSSD	– 2030 National Strategy for the Sustainable Development of the Republic of Belarus
PPP	– purchasing power parity; public private partnership
RES	– renewable energy sources
SDG	– Sustainable Development Goals
SME	– small and medium-sized enterprises
TAF	– EDB Technical Assistance Fund
UN	– United Nations
UNDP	– United Nations Development Programme
WB	– World Bank

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Executive summary

Belarus's economic growth slowed owing to the COVID-19 pandemic. At the end of 2020, Belarus's GDP was US $59.7 billion, down 0.9% in real terms compared to 2019. Economic activity rebounded in the second half of 2020 and the GDP decline rate slowed from -1.8% in January–June to -0.9% in January–December. Investment activity weakened, in part due to negative economic sentiment, greater complexity in accessing bank finance and increased uncertainty. Business activity was supported by funds extended to state-owned enterprises that were worst affected by the COVID-19 pandemic and by stronger overseas demand for food and fertilisers.

The economy is expected to recover slowly between 2022 and 2026, with an average GDP growth rate of approximately 1% per year. As the Belarusian economy adapts to restrictions, GDP will start to improve and medium-term growth rates will stabilise. The potential for growth is limited by state-owned enterprises' low productivity and unequal distribution of financial resources.

Belarus is at high risk of sanctions. As the social and political situation deteriorated, the EU, the US, the UK and certain other countries imposed sanctions on Belarusian officials, commercial organisations and banks. Sector-specific sanctions restrict foreign trade in oil products, potash fertilisers and other goods in European markets. These sanctions have had a negative impact on the country's economy and investment attractiveness.

The EDB's indicative funding for Belarus between 2022 and 2026, the country strategy period, could reach US $1.5 billion. Over these five years, the EDB will utilise a variety of financial instruments: credit and loan facilities (including syndicated loans); debt and equity participation; bank guarantees; issuing, servicing and supporting letters of credit; and technical assistance instruments (grants).



In Belarus, the Bank will need to progress from being a junior partner in syndicates to an MDB with the largest project portfolio, a leader in PPP and green economy projects and in structuring complex transactions through project planning, private investment and accelerated transaction structuring.

The Bank will develop expertise in initiating projects in Belarus and guiding them throughout their life cycle, from design to implementation. The EDB will be an anchor partner to syndicate loans for such projects.

As part of its new approach to project operations in Belarus, the Bank plans to assign receivables from existing and new projects, post-launch, primarily to development institutions, foreign investors and other market participants. This will help to boost annual investment, reduce portfolio risk and contribute significantly to the SDGs.

Over the strategy period, the Bank will consider replacing project finance from foreign investors in Belarus. Subject to sanctions in place, the Bank will consider financing investment projects that have been suspended by MDBs and foreign investors. Priority will be given to initiatives at the most advanced stage of preparation.

1 External operating environment

1.1. Belarus's development factors

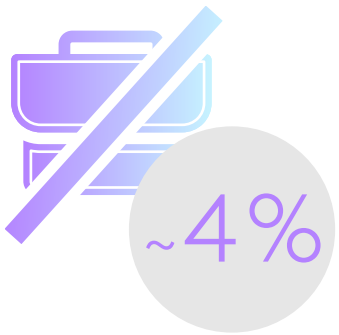
1.1.1. Social and political factors

Belarus is among the most developed EAEU countries in terms of household income and living standards. According to the World Bank, at the end of 2020, the country's GDP per capita totalled US $6,411.2 (Table 1) and, according to Belstat, 4.8% of the population lived below the poverty line (as per the national measure). The United Nations' 2020 Human Development Index classifies Belarus as having a very high level of human development and ranked 53rd globally (with Russia ranking 51st and Kazakhstan 52nd).



The United Nations' 2020 Human Development Index

Belarus is a country facing demographic challenges — its population, according to Belstat, has decreased by 6.1% over the last 20 years to 9.3 million by the beginning of 2021. The main reason for population decline is that deaths outnumber births. However, since 2000, annual net migration has been positive and has partly compensated for the natural decrease. In addition, the country's population has been ageing since 2000; while the working-age population has remained at 57.3% of the total population, the proportion of people over working age has gone up from 21.4% to 24.8%. The worsening demographic situation, including the country's ageing population, may create an additional burden for the country's budget owing to increased spending on health and pension subsidies.



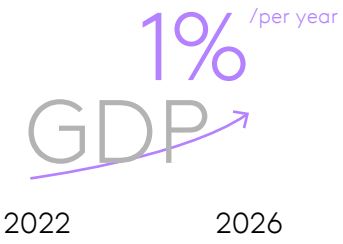
The unemployment rate remains low, and a significant proportion of the workforce is employed the public sector. According to Belstat's ILO-aligned data, the unemployment rate in Q1 2021 was 4.2% and the 2020 average was 4%.

Belarus is at high risk of sanctions. Due to the worsening social and political situation in the wake of the presidential election, the EU, the US, Canada and the UK imposed sanctions on Belarus, affecting certain economic sectors and restricting access to capital markets. Sanctions were imposed on more than 200 Belarusian officials, several commercial organisations and banks. In addition, the country was subjected to sector-specific sanctions restricting foreign trade in oil products, potash fertilisers and other goods in the European market. EU partner states such as Albania, Iceland, North Macedonia, Norway, Montenegro and Switzerland joined European sanctions. The sanctions have had a negative impact on the country's economy and investment attractiveness, necessitating re-direction of exports to the EAEU, China and other countries, and replacing financing for projects initiated by MDBs and foreign investors in Belarus.

1.1.2. Economic factors

At the end of 2020, amid the COVID-19 pandemic, Belarus's GDP totalled US $59.7 billion, down 0.9% in real terms compared to 2019. Social distancing, lockdowns, slowing income growth and retail lending have constrained consumer demand. Investment activity declined in 2020 owing to several factors: bearish economic sentiment; worsening financial performance of organisations; access to bank finance becoming more complex; greater uncertainty; and transport and logistics bottlenecks. Stronger foreign demand for food and fertilisers and credits to the state-owned enterprises worst affected by the COVID-19 pandemic supported business activity in 2020.

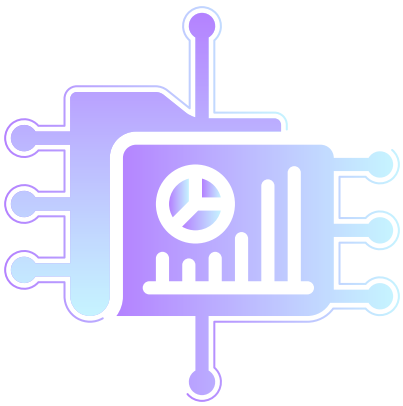




Average GDP growth

The EDB predicts Belarus's economy will recover gradually between 2022 and 2026, with an average GDP growth rate of approximately 1% per year[1]. As the Belarusian economy adapts to restrictions, GDP will start to improve and its medium-term growth rates will stabilise. The potential for growth is limited by state-owned enterprises' low productivity and unequal distribution of financial resources. The country has an export-oriented economy although key exporting industries are inefficient and undiversified. The EDB believes economic growth depends on improving the competitiveness of key sectors, diversifying exports and increasing the share of high-value-added products. The integration effect of stronger ties and mutual trade within the EAEU will support this.

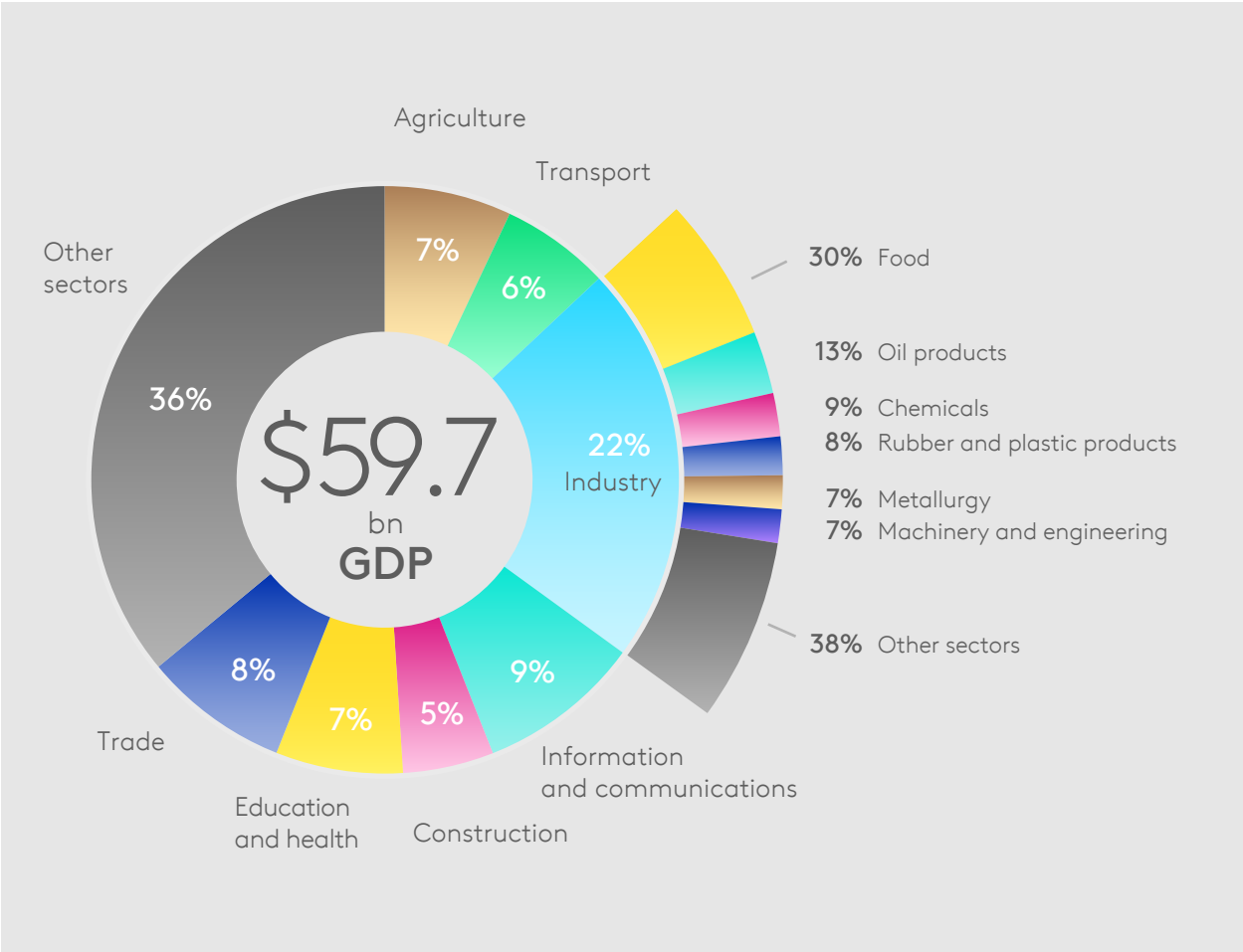
[1] Belarus's 2021–2025 Social and Economic Development Programme (approved by Presidential Decree 292 on 29 July 2021) expects positive economic developments, with a GDP growth rate reaching 102.9% in 2022, 103.8% in 2023, 105.4% in 2024 and 106% in 2025.



Foreign trade in goods fell by 15.1% in 2020 due to the negative impact of the COVID-19 pandemic. Imports and exports declined by 17.2% and 12.6%, respectively. Imports shrank more than exports for two main reasons — high foreign demand for food and the weakening of the Belarusian ruble, which supported the competitiveness of Belarusian producers. The greater decrease in imports has improved the balance of foreign trade in goods — in 2020, the deficit narrowed to US $2 billion from US $4.2 billion in the previous year. Surplus foreign trade in services amounted to US $3.9 billion in 2020, up US $0.1 billion year-on-year.

The ratio of government and government-guaranteed debt to GDP went up by 5.4 percentage points in 2020, to 42.7% as at 1 January 2021. The debt burden expanded due to a 4.4 percentage-point increase in the foreign government debt to GDP ratio and a 1.1 percentage-point increase in government-guaranteed debt. In 2020, Belarus mobilised US $3.15 billion in foreign borrowings, mainly through bond offerings (US $1.4 billion), loans from the Russian government and banks (US $1.05 billion) and an EFSD loan (US $0.5 billion). More than 90% of its public debt is in foreign currencies, resulting in high foreign exchange and liquidity risks for the government.

↓ Figure 1. Belarus's GDP by sector and industrial structure, 2020



Source: Belstat

Industry is the Belarusian economy's largest sector, accounting for more than 20% of the country's GDP and employment. The largest sectors are the food industry (with a share of about 30% at the end of 2020); oil products (about 13%); machinery and engineering (about 7%); and chemicals (about 9%).

The value-added structure of Belarus's industry is based on fairly low-tech sectors. At the end of 2019, low- and medium-tech industries accounted for 57.9% of the sector. The low-tech sector is dominated by raw materials and agricultural processing. The largest manufacturing sector is the food industry, with dairy and meat products accounting for more than 50% of output.

The public sector plays a significant role in Belarus's industries and its economy as a whole. In 2020, organisations with a majority government stake employed over 40% of the country's workforce, produced more than 50% of industrial goods and absorbed over 50% of fixed investment. However, the average productivity of state-owned enterprises is lower than that of private companies. As at 1 April 2021, organisations with a majority government stake accounted for more than 60% of overdue accounts payable, almost 60% of overdue receivables and almost 58% of overdue loans and borrowings.

Trade and agriculture are large sectors of the Belarusian economy, accounting for more than 16% of the country's GDP and over 23% of employment. However, the agricultural sector is characterised by low profitability and efficiency. The State Programme for the Development of Agricultural Business has been designed to boost the efficiency of agriculture.

Information technology (IT), finance and insurance are efficient sectors in Belarus. In 2020, these employed a mere 4.5% of the country's workforce but produced 10.5% of its GDP. Over the past decade, the IT sector was among the most thriving in Belarus, with its share in GDP having grown by a factor of 3.4 (from 2.2% to 7.3% in 2020).

SMEs account for about a quarter of the Belarusian economy. According to Belstat's preliminary data for 2020, these businesses contributed 26.4% of GDP (24.5% in 2014), 19.8% of industrial output (16%), 40.1% of fixed investment (42.3%) and 34.7% of employment (32.3%). Belarus is running an SME development strategy until 2030 entitled Belarus — A Country for Successful Entrepreneurship and its 2035 National Strategy for Sustainable Development is designed to boost the share of SMEs in GDP to 50% by 2030.

up to 50%



share of SMEs
in GDP by 2030

Belarus's exports and imports are highly concentrated in terms of commodities and geography. Belarus's main exports are goods with low added value and those reliant on raw materials and agricultural products. The key exports are mineral products (refined oil products), chemicals (primarily potash fertilisers) and food (the most important items being cheese, cottage cheese, milk, butter and beef). Machinery, equipment and vehicles (primarily trucks, tractors and related spare parts) make up a significant share of more technologically advanced exports. Imports are dominated by primary products (mineral products, metals, food and agricultural raw materials), with machinery and equipment also having a significant share. Belarus's largest trade partner is Russia, which in 2020 accounted for about 45% and 50% of Belarusian exports and imports, respectively.

Indicator		2018	2019	2020
Key macroeconomic indicators				
GDP	US $ billions	60.0	64.5	59.7
GDP per capita	US $	6,322	6,832	6,411.2
WB Ease of Doing Business ranking	out of 190	38	37	49
United Nations E-Government Development Index	out of 193	70	66	68
WB Logistics Performance Index	out of 168	103	—	—
Freight handling by modes of transport:	million tonne-kilometres:	138,838	130,842	123,158
pipelines		58,071	54,039	51,854
railways		52,574	48,205	42,420
cars and trucks		28,082	28,516	28,778
inland water transport		37	33	30
aviation		75	48	76
Sustainable development indicators				
Population, year-beginning	million people	9,448	9,429	9,410
Poverty rate, per national measure	%	5.6	5.0	4.8
Inequality (Gini coefficient)	%	25.2	25.3	—
Year-end unemployment	%	4.8	4.0	4.1
UNDP Human Development Index	out of 189	53	50	53
Emission intensity	kg CO_2 per unit of GDP at PPP	—	—	1.0
Share of RES in the energy mix	%	3.9	4.0	4.0
Specific energy intensity	electricity generation/GDP	—	—	0.5

Sources: EEC, UN, WB, IMF, IEA, IRENA, Belstat, EDB estimates

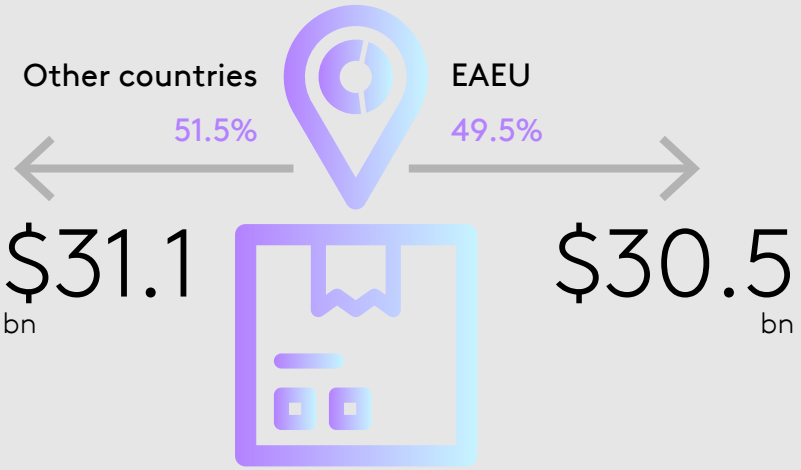
↑ Table 1. Belarus's social and economic development indicators

1.1.3. Integration agenda

Thanks to its location, Belarus has a unique position in integration processes. Despite being landlocked, it is situated at a junction of major transport corridors, which contribute to its transit potential. Belarus's key trading partners are the EAEU, China, the UK and EU countries — Germany, Poland, Lithuania and the Netherlands. In the context of sanctions, Belarusian trade partnerships with Western countries are at risk and trade is likely to be re-oriented to the EAEU and other countries.

Trade with EAEU countries stood at US $30.5 billion (49.5% of total trade) in 2020 while that with other countries totalled US $31.1 billion. Russia continues to dominate Belarus's trade with EAEU member states, accounting for 93.8% and 99.2% of all exports and imports, respectively. The key Belarusian exports to Russia are food and agricultural raw materials (primarily dairy and meat products) as well as machinery and equipment.

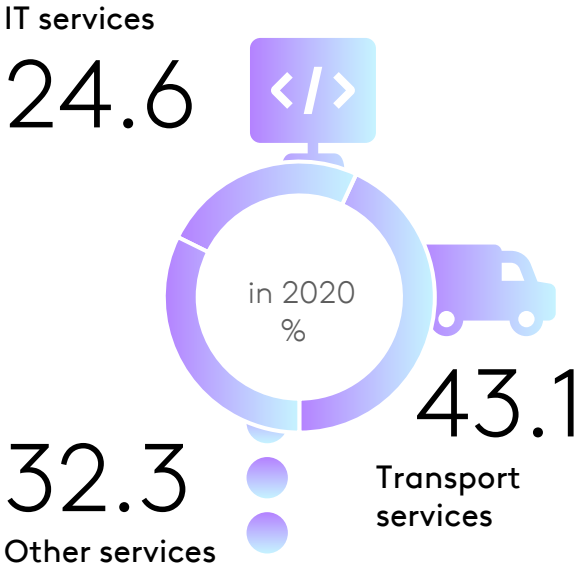
Belarus trade in 2020



Belarus's foreign trade in services is primarily in transport and IT. This is due to the country's geographical position and EAEU efforts to unlock the union's export potential — Belarus is one of the three EAEU states crossed by China's One Belt, One Road route. In addition, Belarus has a well-developed IT sector, exporting its services to third countries. At the end of 2020, transport and IT services accounted for 43.1% and 24.6% of the country's total foreign trade in services, respectively.

Remittances account for a relatively small proportion of Belarus's economy and balance of payments. According to EEC statistics, these accounted for a mere 1.1% of GDP in 2019, roughly the same as the previous year. However, they have become an integration channel linking Belarus with EAEU countries, primarily Russia, whose share in total inward remittances exceeded 65%.

Foreign trade in services per sector



1.1.4. Green economy

Belarus is exposed to climate change and environmental challenges. Despite the reduction in energy intensity (measured in kilograms of oil equivalent per unit of GDP) from 501 kg in 2002 to 190 kg in 2013, this remains higher than in EU countries. Belarus's national priorities include improving energy efficiency and using renewable energy sources to reduce greenhouse gas emissions. The country is also promoting reforestation and restoring peatlands and wetlands to store greenhouse gases. Annual damage from adverse weather events such as hurricanes, heavy rains and snowfall is estimated at 0.4% of GDP. The most vulnerable sectors are agriculture and forestry. Belarus has programmes for sustainable landscape management and emergency response.

The main environmental challenges are the accumulation of municipal and industrial solid waste, wastewater treatment, loss of biodiversity and radioactive pollution.

The national strategic targets for green economic development are outlined in the country's 2035 National Strategy for Sustainable Development. Belarus also has a 2025 National Action Plan for Green Economy Development as a means for achieving NSDS targets.

1.2. International and national development institutions operating in Belarus

The Belarusian government emphasises the importance of investment from development partners and actively cooperates with MDBs. Several MDBs have scaled down their operations here due to the political situation in the country.

The Development Bank of the Republic of Belarus is a special financial institution established in 2011 by the Council of Ministers and the National Bank of Belarus. Its main objective is to develop a system for financing government programmes and implementing socially important investment projects. Under its 2025 strategy, the DBRB will provide concessional funding for innovative development projects. In 2019, the EDB and the DBRB entered a memorandum of understanding on implementing joint projects and programmes in the EAEU.

DEVELOPMENT BANK

The European Bank for Reconstruction and Development began operating in Belarus in 1992 and since then has invested over EUR 2.9 billion in the country (in more than 130 projects in various sectors) (as at 1 January 2020). In 2018 and 2019, the EBRD provided EUR 760 million for projects in Belarus. The EBRD is participating in the financial sector, housing and utilities, transport infrastructure and various SME sectors in projects at varying stages of completion. The bank has suspended public-sector projects for the time being and is not taking on new sovereign projects in Belarus owing to the political situation.

European Bank
for Reconstruction and Development

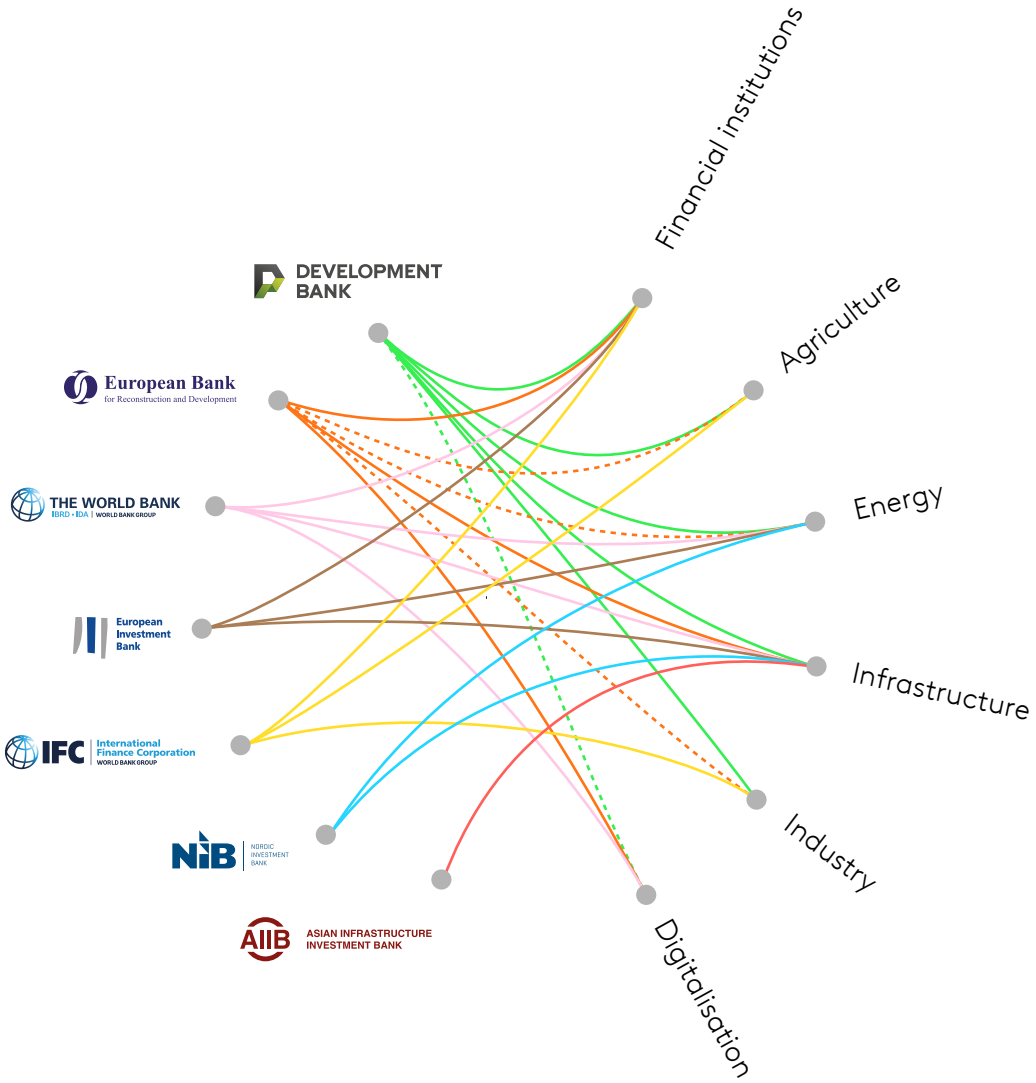
The European Investment Bank launched operations in Belarus in May 2017. In 2018 and 2019, Belarus signed four loan agreements with the EIB for a total of EUR 350 million. These focused on environmental projects, primarily in transport and municipal infrastructure and energy efficiency. In addition, the bank signed loan agreements with Belarusian banks to support SMEs to the tune of EUR 200 million. Since the autumn of 2020, the EIB has suspended operations in Belarus because of political developments.

The International Bank for Reconstruction and Development began operating in Belarus in 1992 and since then has invested over US $2 billion in important projects in various sectors. Cooperation with the IBRD is based on the World Bank Group's 2018–2022 Country Partnership Framework for Belarus and has two key objectives: investment cooperation with the use of IBRD loans to finance investment projects and technical assistance (consultancy) promoting certain structural transformations in the economy.

The International Finance Corporation provides financial support to private institutions and consultancy on developing the private sector, improving the business environment and SME support.

The Nordic Investment Bank has operated in Belarus since 2010 based on a framework agreement. In Belarus, it focuses on projects in the utilities sector and those aimed at reducing harmful emissions.

The Asian Infrastructure Investment Bank launched its operations in Belarus in 2019. That year, as a result of the negotiations with the Belarusian government, the AIIB was invited to take part in projects in housing and utilities, transport infrastructure, energy and agriculture. However, no financing agreements have been signed for any of the projects under consideration to date.



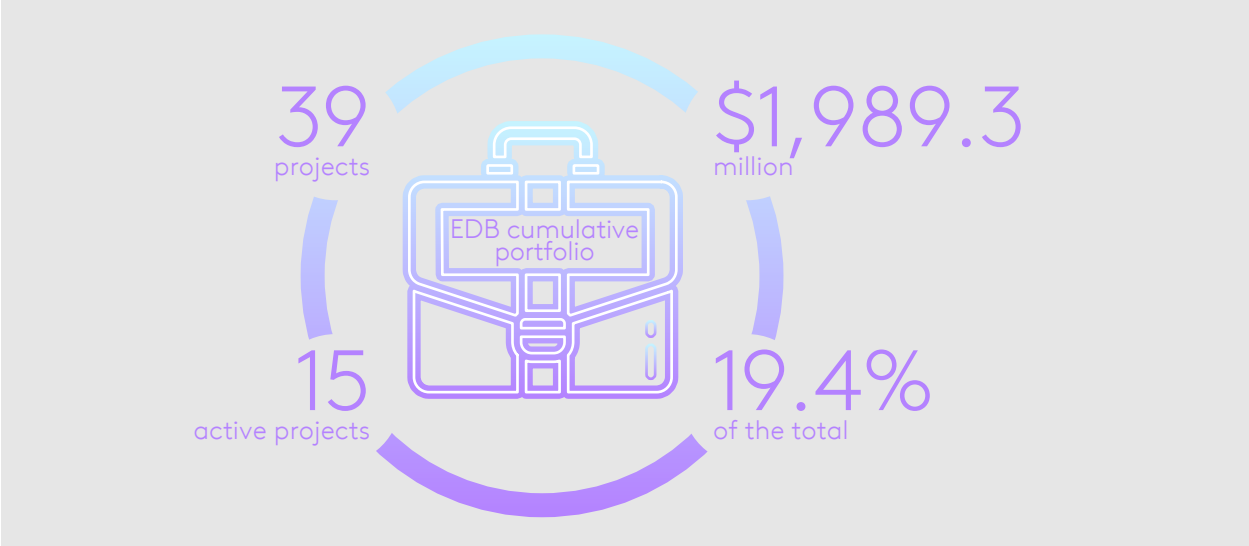
Source: MDBs and national development institutions

↑ Figure 2. Strategic priorities of international and national development institutions in Belarus

2

The EDB's strategic development objectives in Belarus

2.1. The EDB's project operations in Belarus



Source: the EDB

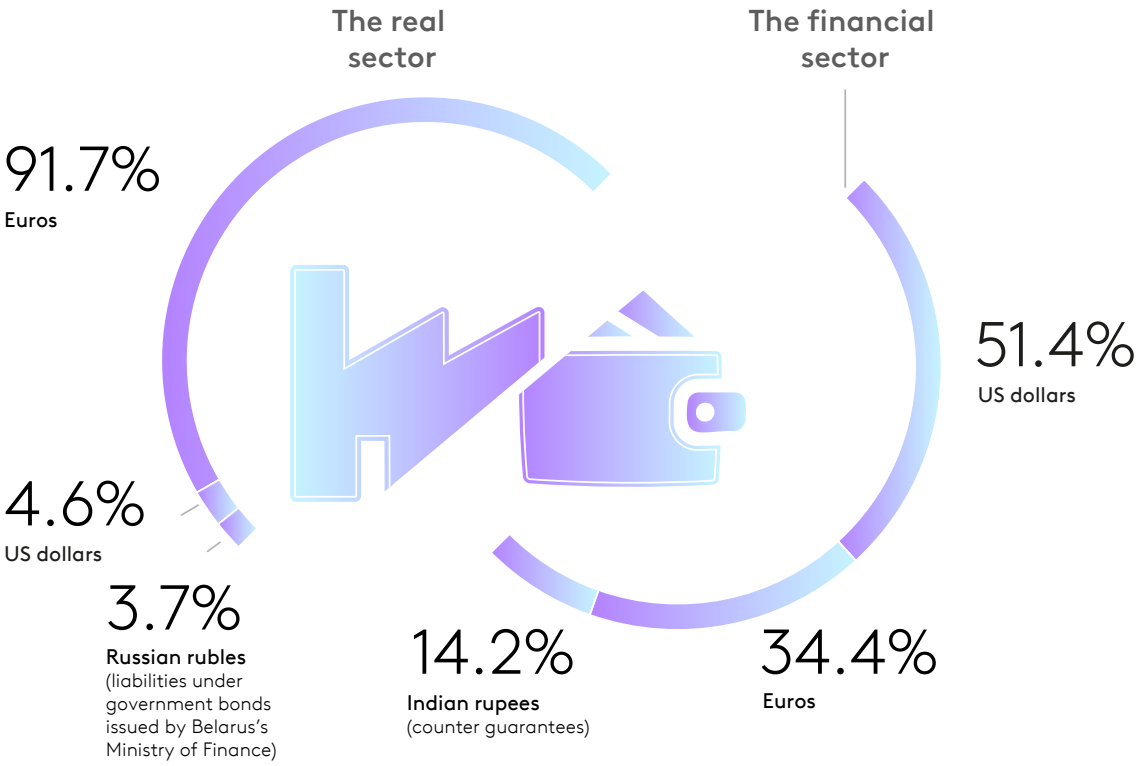
↑ Figure 3. The EDB's performance in Belarus

The EDB's cumulative investment portfolio in Belarus, as at 30 June 2021, comprised 39 projects totalling US $1,989.3 million, or 19.4% of the EDB's total cumulative investment.

During the 2018–2021 strategy period, the Bank doubled its investment in Belarus. Over the EDB 2018–2022 Strategy period, Belarus's projects had increased from 9.2% to 21.9% of the Bank's investment portfolio as at the end of 2020.

The current investment portfolio, as at 30 June 2021, includes eight projects in the real sector, worth a total of US $816 million, and seven projects in the financial sector worth US $189.2 million. The Bank's current investment portfolio in Belarus stands at US $1,005.2 million, which is 23.1% of its total current investment portfolio.

The currency structure of the EDB's current investment portfolio in Belarus is as follows:

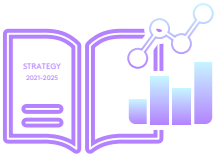


The EDB portfolio in Belarus does not have additional capital-risk-adjusted capacity available until the end of 2021. According to preliminary estimates, in 2021 the Bank's projected annual investment in Belarus will reach around US $200 million. The anticipated portfolio structure, including planned new projects and repayments under existing projects but excluding exchange rate differences, suggests greater pressure on the Bank's credit ratings compared to 2020 (based on rating agencies' methodologies). Adding to corporate borrower risk, given the need for the Bank to maintain the financial stability its shareholders require, could intensify pressure on its capital in the medium term.

2.2. Belarus's national development priorities

The 2035 National Strategy for Sustainable Development is Belarus's key long-term development plan. Belarus's strategic sustainable development goal is to promote high living standards and conditions for harmonious human development through the transition to a highly efficient economy based on knowledge and innovation, while preserving a favourable environment for future generations. The NSSD also sets key long-term development targets for government programmes and projects.

The country's 2021–2025 Social and Economic Development Programme sets out its medium-term development objectives. Belarus's main objective for this period is to ensure social stability and improve its citizens' welfare by modernising the economy, building up social capital and creating conditions favourable for life, work and self-fulfilment.



The government's economic policy will target economic recovery and subsequent sustainable growth by stimulating domestic consumption, launching a new investment cycle and pursuing an effective export strategy. In so doing it will extend financial and institutional support for all types of exporters. Qualitative development will be achieved by boosting productivity and creating jobs, increasing the capacity of the domestic market, improving the business environment and reducing risks and costs for investors and businesses. Key objectives include reducing economic dependence on unprocessed hydrocarbons and enhancing export potential with high-tech commodities.

The key social and economic development objectives between 2021 and 2025 are to:



→ ensure progressive GDP growth by a factor of at least 1.2 in real terms by 2025, compared to 2020;

→ improve the population's health and raise life expectancy to 76.5 years by 2025;

→ increase the real disposable income of the population by a factor of 1.2 over five years, including an increase in pensions above the inflation rate; to create the conditions for mobilising "long" money in the economy and increase fixed investment by more than 1.2 times by 2020;

→ boost exports of goods and services by more than US $50 billion and diversify exports;

→ enhance the competitiveness of its industries, ensure their financial sustainability and establish new high-tech industries;

→ raise the share of services in GDP to 50–51% and accelerate the development of knowledge-intensive high-tech services;

→ improve the quality of education and develop new professional competencies to meet economic need;

→ ensure the sustainability of the budget system and develop the financial market; and

→ implement regional policies to create comfortable living conditions and jobs with decent pay for efficient work.

These objectives do not include any metrics or target values.

Considering the NSDS and national development programmes (Annex 2), the following national priorities for the development of certain sectors could be of interest to the EDB.

Developing high-tech and high-value-added industries.

Belarus's industrial development strategy plans to create a competitive production environment that would be responsive to global developments and domestic demand. The priority sectors include pharmaceuticals, optoelectronics, LED and laser technology, and medical and measuring equipment. The main objectives of the country's 2021–2025 State Innovative Development Programme are to:

→ create the best conditions in Eastern Europe for implementing and promoting science, technology and innovation based on global best practice;

→ ensure the innovative development of traditional sectors to EU standards by increasing the knowledge intensity of production processes;

→ set up new knowledge-intensive and high-tech sectors and boost development of the existing ones; and

→ expand and strengthen Belarus's position on global markets in knowledge-intensive and high-tech products.

Improving agricultural processing rates and exports.

The Belarusian government plans to increase agricultural processing rates by using biotechnology and developing the manufacture of new export-oriented products. The plan for agriculture is to focus on boosting efficiency through innovation, including precision farming, genetic engineering, automation and robotics.

The key development targets are to:

→ increase exports of food and agricultural raw materials to US $7 billion by the end of 2025; and

→ ensure the profitability of agricultural sales to at least 10%.

Energy.



Belarus's 2021–2025 Social and Economic Development Programme suggests that efforts in the energy sector should focus on improving the country's energy self-sufficiency and energy efficiency in all economic sectors. Dependence on hydrocarbons will ease when the country commissions the Belarusian NPP, diversifies its fuel and energy resources and suppliers and ensures the use of local fuel and energy resources, including RES. To enhance the nation's energy self-sufficiency, there are plans to:

→ build peaking power plants to improve the reliability of the energy system; and

→ implement projects to construct and reconstruct power substations and grids for different voltages.

The development of network infrastructure will be a significant project. It includes construction or rehabilitation of heating networks and the replacement or renovation of gas pipelines. In addition, the programme envisages the digital transformation of the power sector by automating technological and business processes, including in the gas sector. Greater energy efficiency will be achieved by introducing highly efficient technology, equipment and materials, and by improving the efficiency of technological processes through electrification and standardisation.

Transport.



Building an efficient transport sector is a key objective of Belarus's 2021–2025 Social and Economic Development Programme, based on developed, safer and more accessible transport infrastructure. One important task is to promote international transport corridors and a network of logistics centres by improving their functionality and coverage. Work will continue to renew and expand the fleets of all modes of transport with competitive, modern vehicles that are comfortable, safe and green. The 2021–2025 State Transport Sector Programme (approved by Resolution 165 of the Council of Ministers of Belarus on 23 March 2021) envisages an increase in freight (excluding pipelines) and passenger transport to 120.6% and 131.7% respectively by 2025, compared to 2020.

In rail transport, a series of measures has been drawn up to electrify and modernise the railway infrastructure. East–west–east rail container traffic will increase to 1 million TEU containers by the end of 2025.

In road transport, there are plans to construct and rehabilitate at least 500 kilometres of road. The building and reconstruction of 24 bridges and flyovers will improve the performance of road bridges.

There are plans to upgrade ground-based air transport infrastructure and air navigation equipment, to increase flight destinations, including with new transcontinental routes. Regional air transport will also be developed.

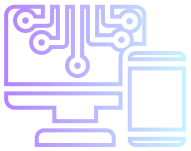
Work will continue to develop road, urban electric transport and the metro. The key objectives here are to renew public electric transport and related infrastructure and ensure growth in the export of road transport services.

Social infrastructure and utilities.



Belarus's 2021–2025 Social and Economic Development Programme includes the development of healthcare infrastructure, modernisation of higher and vocational education institutions and the building of modern infrastructure for the hospitality sector. Improving living conditions requires qualitative improvements in utilities. These will be developed and maintained to ensure quality drinking water supplies and to improve wastewater treatment. Belarus will implement its 2021–2025 National Infrastructure Plan to achieve these objectives.

Digital transformation.



Medium-term plans include the introduction of information and communication technologies and advanced production technologies in all spheres. Belarus intends to increase the share of the ICT sector in GDP to at least 7.5% by 2025. There are plans to set up sector- and region-specific digital platforms, including in transport, manufacturing, education and health. Work will continue to introduce e-government services and promote digital participation to improve public administration.

2.3. Priorities of the EDB 2022–2026 Strategy

In the new strategic model, the EDB will transform its role as the number one development bank in the countries in which it operates in terms of its annual portfolio. The EDB will increase its annual investment by 2.7 times, to US $3 billion per annum by 2026, with cumulative investment between 2022 and 2026 to total US $10.9 billion.



The Bank's unique integration role. In the new strategy period, the EDB will focus on strengthening its role as a development bank in the countries in which it operates and on cultivating and implementing investment projects with a strong integration effect. In so doing, the Bank will primarily finance projects that create lasting cross-country production and cooperation chains; projects with cross-country and cross-border multiplier effects; and infrastructure projects.

The transformation of project operations will support the development objectives of all the EDB member countries and as such will aim to promote integration among the region's largest economies and contribute to Belarus's national development objectives.

The EDB region has enormous untapped potential for large-scale infrastructure projects with an integration effect, primarily in transport and logistics, the water and energy complex and a single commodity distribution network. The Bank will focus on investment mega-projects that have the greatest potential to promote integration and economic developments in its member states.

Implementing key investment mega-projects (KIMPs). At least three key investment mega-projects will be structured and launched with the EDB's involvement as a leading organisation and with the use of its TAF, with the Bank's total investment to approximate US $1.2 billion. The Bank's priority should be the KIMPs in three areas that will impact integration developments in the region to the greatest extent:

→ development of cross-country land and multimodal transport corridors (Europe–Western China, North–South), and pipeline infrastructure;

→ development of end-to-end commodity distribution chains (in particular transport and logistics centres and wholesale distribution centres); and

→ development of the water and energy complex.

As the EDB is the only institution with a regional approach, a regional focus on such projects will be key to their success. Major end-to-end investment initiatives fail to achieve significant results because of the varying maturity of PPP legislation in EDB countries, the lack of applied regulatory expertise and failure of national institutions and MDBs to focus on such cross-country projects in the EDB region.

The EDB sees its role in organising the work of KIMP partners. As the KIMPs are capital-intensive, the EDB will create coalitions of international and national development institutions to finance these projects.



The Bank will actively leverage the potential of its partnerships to strengthen its analytical competencies. In the new strategy period, the EDB will build competencies in leading applied macro and sector-specific research. This work will help to develop KIMP activities as the EDB plans to determine future developments in such projects and organise its partner institutions' work on such projects.

In developing its green portfolio, the EDB is guided by its sustainable development targets. The EDB will expand its presence in green finance. The Bank considers the following as environmental projects in accordance with the International Capital Market Association's Green Bond Principles:

→ renewable energy sources;

→ energy efficiency;

→ electricity storage, district heating, smart grids, equipment and products;

→ prevention of any type of pollution and pollution control; and

→ clean transportation.

The EDB will seek to develop expertise in the early stages of investment initiatives. In so doing, the Bank will draw on the expertise of participants in such investments, in the region and in international markets.

Strengthening the Bank's presence in the countries in which it operates will be an integral part of its strategic repositioning. To operate more effectively, the Bank will expand its office in Minsk. The primary objective of this will be to develop business and form a pool of promising projects while cooperating with the authorities and local partners and deepening analysis and country expertise.

The EDB's digital competency. The Fund for Digital Initiatives will support Belarus's digital development agenda. The EDB's digital projects will factor in the need to achieve Sustainable Development Goals and to promote technology-based companies and promising projects in Eurasia.

2.4. The EDB's strategic goal and objectives in Belarus

The EDB's strategic objectives and priorities in Belarus to 2026 have been informed by reviews of the country's development status, the objectives set by the Belarusian government and other development institutions operating in Belarus, the Bank's project experience and its mission and mandate (Table 2).

↓ Table 2.
The EDB priorities
in Belarus
for 2022–2026

Strategic goal:
transforming the EDB operations, making it the number one MDB in terms of financing investments that promote Belarus's sustainable development and regional economic integration.

Objective 1 Developing basic infrastructure	Priority 1.1. Reconstructing and developing transport routes and infrastructure
	Priority 1.2. Supporting the development of logistics and warehousing infrastructure
	Priority 1.3. Promoting e-transport and related infrastructure
	Priority 1.4. Supporting the development of social infrastructure, housing and utilities
Objective 2 Facilitating the sustainable development of Belarus's energy system	Priority 2.1. Creating and modernising energy infrastructure
	Priority 2.2. Transition to a green agenda
Objective 3 Modernising and developing industry	Priority 3.1. Modernising industry
	Priority 3.2. Promoting the establishment and development of new industries
Objective 4 Developing export potential and business support	Priority 4.1. Promoting cooperation and trade ties, with EAEU countries in the first place
	Priority 4.2. Supporting small and medium-sized enterprises
Cross-cutting objective 5 Digital transformation	

Source: the EDB

Objective 1

Developing basic infrastructure

The EDB's strategic goal to 2026will be to develop an efficient transport and logistics system in order to optimise freight transport in Eurasia. Other relevant objectives include the promotion of e-transport and related infrastructure, and support for the development of social infrastructure, housing and utilities.

Priority 1.1. Reconstructing and developing transport routes and infrastructure

During the strategy period, the EDB will continue to develop transport infrastructure by implementing KIMPs, including road and rail reconstruction and development projects — those to modernise international transport corridors II and IX, the M-1 highway, One Belt One Road sections (China–Western Europe) — and other highways and interchanges. These projects will help to boost transport capacity and enhance integration with the transport systems of neighbouring countries. In addition, using its experience and expertise in PPP projects, the EDB will continue to provide both senior- and junior-debt (quasi-equity) instruments.

Priority 1.2. Supporting the development of logistics and warehousing infrastructure

The EDB plans to develop end-to-end commodity distribution by implementing KIMPs that use innovative technology and services to build or upgrade transport and logistics hubs and wholesale distribution centres. The Bank, in cooperation with the EEC, will carry out a comprehensive analysis of trade and existing infrastructure, drawing up a concept for a Eurasian commodity distribution network. This will incorporate transport and logistics corridors and wholesale distribution centres that the member states, including Belarus, require. The work will inform the implementation of projects that could be funded by the EDB. Such projects are expected to boost freight traffic and speed up freight handling, which will reduce costs for all users of the transport and logistics system and promote transit potential and the export of transport services.

Priority 1.3. Promoting e-transport and related infrastructure

The EDB plans to finance projects to renew railway rolling stock and urban e-transport and support manufacturing and innovation in e-transport and related infrastructure. These projects should help the environment by reducing air pollution.

Priority 1.4. Supporting the development of social infrastructure, housing and utilities

The EDB plans to finance projects to build and modernise social infrastructure and utilities, including water and wastewater projects.

Objective 2

Facilitating the sustainable development of Belarus's energy system

One of the The EDB's objective to 2026 is to build and modernise energy infrastructure and contribute to the country's transition to a green agenda.

Priority 2.1.
Creating and modernising energy infrastructure

The EDB plans to finance new energy infrastructure, network rehabilitation and renovation, and energy efficiency projects.

Priority 2.2.
Transition to a green agenda

During the strategy period, the EDB plans to finance renewable energy projects that will help to diversify the energy mix, enhance energy security and improve the environment.

Objective 3

Modernising and developing industry

One of the EDB's objectives until 2026 is to promote the modernisation and competitiveness of Belarusian enterprises.

Priority 3.1.
Modernising industry

During the strategy period, the Bank will focus on projects that improve industrial efficiency in Belarus. It will prioritise manufacturing projects that contribute most to GDP, employment and exports to EAEU countries.

Priority 3.2.
Promoting the establishment and development of new industries

The EDB will finance high-tech and high-value-added production projects and provide project planning assistance through its Technical Assistance Fund (TAF). The focus will be on high-tech sub-sectors demonstrating the greatest potential.

Objective 4

Developing export potential and business support

Another objective of the EDB until 2026 is to promote trade, diversify exports and develop SMEs.

Priority 4.1.
Promoting cooperation and trade ties, with EAEU countries in the first place

In the strategy period, the EDB will provide trade and export finance to businesses operating in EAEU markets. The Bank will focus on supporting companies affected by sanctions. The EDB may execute export finance projects in cooperation with the DBRB.

Priority 4.2.
Supporting small and medium-sized enterprises

The EDB will support SMEs by lending to financial institutions for on-lending to SMEs.

Cross-cutting objective 5

Digital transformation

In the strategy period, the Fund for Digital Initiatives will support Belarus's digital agenda to intensify integration with Eurasian countries and foster digital development. The EDB's digital projects will factor in Sustainable Development Goals and promote technology companies and promising projects in Eurasia.

Digital transformation is a related and overarching objective, which will help the EDB to implement its priorities in Belarus in 2022–2026.

3

Implementing the country strategy

3.1. Approaches to project activities

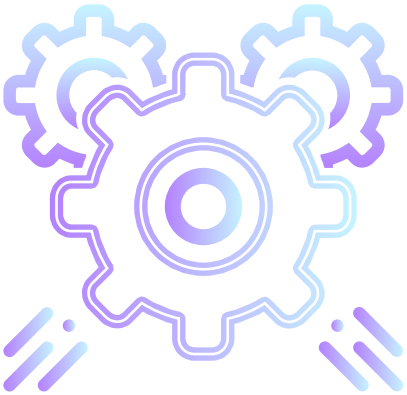
In Belarus, the Bank will need to progress from being a junior partner in syndicates to an MDB with the largest project portfolio, a leader in PPP and green economy projects and structuring complex transactions using the following:

→ **preparing projects** using TAF funds and providing consultancy to develop business plans and pre-project documentation;

→ **mobilising private investment,** primarily to scale up the use of PPPs in EDB countries, including in green projects; and

→ **accelerating transaction arrangements** by developing capabilities in syndicated and tied finance, and legal expertise.

The EDB aims to improve its capacity to nurture projects in Belarus throughout their life cycle, from design to implementation. The EDB will be an anchor partner in syndicate loans to such projects.



As part of its new approach to project processes, the Bank plans to assign receivables from existing and new projects, post-launch, primarily to development institutions, foreign investors and other market participants. This will help to boost annual investment, reduce portfolio risk and contribute significantly to the SDGs.

The Bank will consider replacing project finance from foreign investors in Belarus. Subject to sanctions in place, the Bank will consider financing projects that have been suspended by MDBs and foreign investors. It will prioritise initiatives at their most advanced stage.

Boosting the EDB's investment in Belarus could involve investors from EAEU member states. In the new strategy period, the EDB will support investment in Belarus by providing long-term finance to investors from EAEU countries and by using its expertise to manage its portfolio risk.

The Bank will use project and equity financing to support complex long-term projects. Based on previous experience, the Bank anticipates that its investment and transactions will have unique features that necessitate a project-based approach to structuring finance. The EDB, as a development institution with unique capacities, will continue to develop finance that supports investment initiatives in Belarus.

The EDB will participate in initiatives that contribute to Eurasian integration. In line with its strategic goals and aspirations, the EDB is interested in building key infrastructure, with a unified electricity market being a particular priority. It is keen to promote a single industrial policy and common principles for a single ICT market.

3.2. Technical assistance

The bank will deploy technical assistance to develop the institutional environment and improve project planning in Belarus. The Bank plans to use technical assistance more actively to enhance its investment opportunities. Technical assistance will help the Bank build a pool of potential projects by supporting adaptation of the regulatory environment and ensuring high-quality preparation of pre-project documentation.



The promising areas for technical assistance in Belarus are as follows:

1. Preparing investment projects, including:

→ structuring investment projects;

→ feasibility studies and related documents for investment projects;

→ advisory services to ensure projects are compliant with ESG principles; and

→ organising and conducting workshops and training for personnel of project participants.

2. Subsidising interest rates on investment projects

3. Expanding the Bank's investments by:

→ harmonising and adapting the institutional environment in Belarus;

→ harmonising legislation governing investment in Belarus, including PPP, concession and other regulations; and

→ comprehensively improving capacity to plan and execute infrastructure and investment projects in Belarus.

The list of technical assistance objectives is indicative. Specific assistance goals will be drafted during the strategy period in collaboration with Belarusian authorities and other development institutions operating in the country.

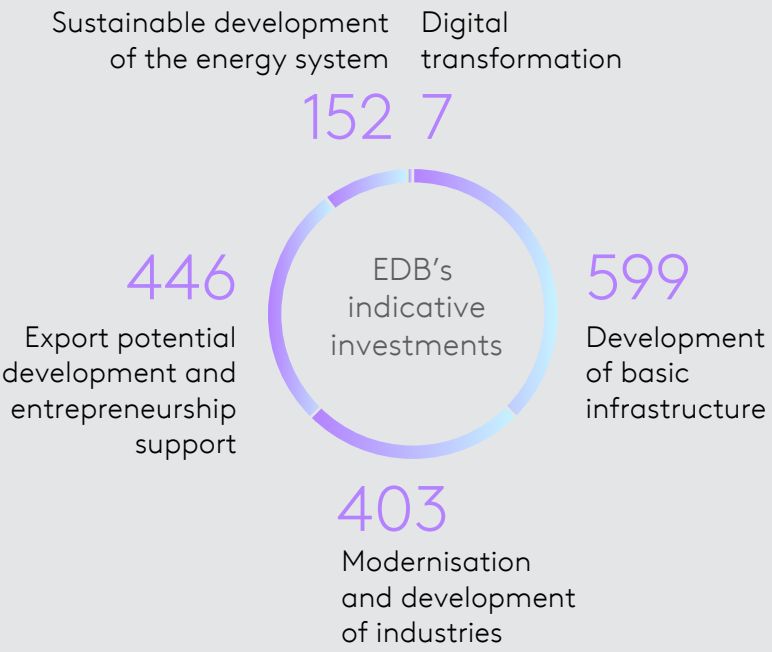
4 Anticipated results of implementing the country strategy

4.1. Indicative project financing in Belarus

more than $1.5 bn

During the strategy period to 2026, the EDB plans to disburse at least US $1.5 billion to projects in Belarus (Figure 4). The Bank also expects to expand its operations in the country, with annual investment to reach at least US $600 million by 2026.

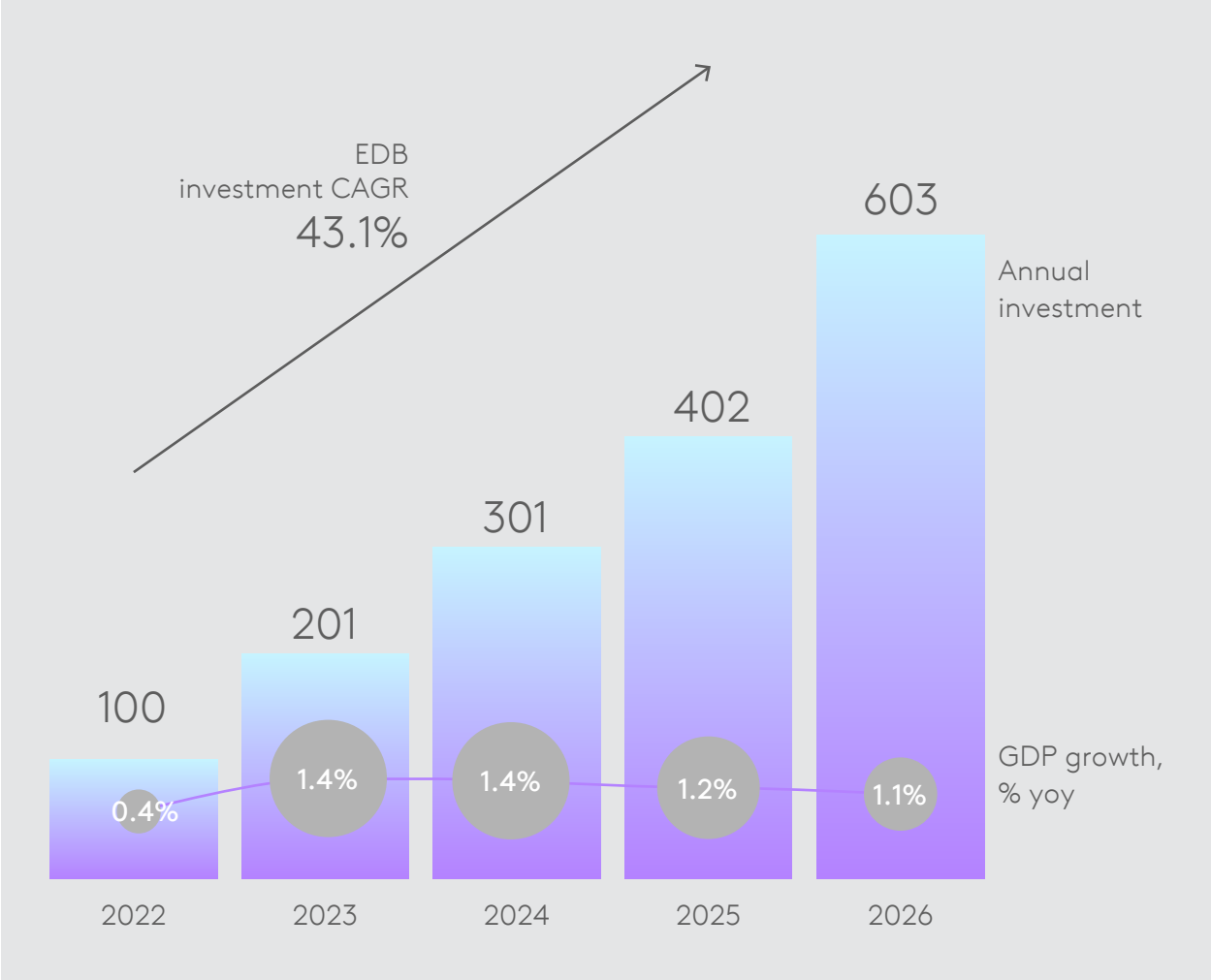
The cumulative impact of EDB operations in Belarus could be twice as high as its investment in the country over the strategy period. Given the 2:1 multiplier of other participants' investments in EDB projects, up to US $3 billion could be channelled into development in Belarus between 2022 and 2026.



The growth of the EDB's indicative annual investment in Belarus may exceed the country's projected GDP growth rate (Figure 4). Compared to an average annual GDP growth rate of 1.1%[1], the compound annual growth of EDB investment in Belarus during the strategy period could reach 43.1%.

Most of the EDB's investments in Belarus will finance basic infrastructure and the modernisation and development of industry. EDB's indicative investment in basic infrastructure is US $599 million; the modernisation and development of industries — US $403 million; export potential development and entrepreneurship support — US $446 million; sustainable development of the energy system — US $152 million; and digital transformation — US $7 million.

↓ Figure 4. The EDB's indicative annual investment and Belarus's GDP projections (US $ millions)[2]



Source: the EDB

[1] Belarus's 2021–2025 Social and Economic Development Programme (approved by Presidential Decree 292 on 29 July 2021) expects positive economic developments, with a GDP growth rate reaching 102.9% in 2022, 103.8% in 2023, 105.4% in 2024 and 106% in 2025.

[1] The indicative figure includes investment in new projects and higher limits for ongoing projects in Belarus.

Capital risk is a key challenge to the EDB's project operations in Belarus. In assessing its capacity to fund new projects, the Bank is guided by the need to maintain the quality of its assets in accordance with rating agencies' methodology. In 2021, ratings agencies suggested that a significantly greater concentration of the Bank's portfolio in Belarus could exert pressure on its capital and credit ratings in the medium term.

The EDB's ability to support projects in Belarus may also be limited by sanctions. The Bank can finance investment projects that comply with its internal regulations and do not risk its operations being sanctioned. The revision downwards of Belarusian borrowers' sovereign and corporate risk exerts pressure on the EDB's loan portfolio.

Indicative funding for projects in Belarus could be fulfilled if the Belarusian government provides additional capital to the EDB. Increasing the exposure of EDB's portfolio in Belarus brings additional risks, which are assessed by country and for the portfolio as a whole. Given this risk, completing targeted investment while remaining compliant with financial stability ratios would be possible if Belarus contributes additional funds to EDB's capital. The Bank has calculated that Belarus's potential additional contribution should total US $125 million. This was calculated using a risk-adjusted multiplier of finance mobilised per US $1 of capital. This sum would enable the EDB to expand its investment in the country.



4.2. Sustainable development outputs

Objective	Priority	Measure	SDG
Objective 1. Developing basic infrastructure	Priority 1.1. Reconstructing and developing transport routes and infrastructure	1.1. Roads created or rehabilitated (length, km)	9. Industries, innovation and infrastructure 11. Sustainable cities and communities
		2. Cross-border goods transit (tonnes per year)	
		3. Number of residents in communities with access to the country/region's single transport network and/or to areas with newly built linear transport facilities (total)	
	Priority 1.2. Supporting the development of logistics and warehousing infrastructure	1. Area of transport and logistics centres built and modernised (sq m)	9. Industries, innovation and infrastructure
	Priority 1.3. Promoting the manufacture of e-transport and related infrastructure	1. Newly built electrified railways (length, km)	9. Industries, innovation and infrastructure 11. Sustainable cities and communities
		2. Annual reduction in direct greenhouse gas emissions through vehicle substitution (tonnes of CO_2-eq per year)	
		3. Number of new electrified vehicles (total)	
	Priority 1.4. Supporting the development of social infrastructure, housing and utilities	1. Number of people with access to new or renovated social infrastructure (total)	9. Industries, innovation and infrastructure
		2. Number of people with access or significantly improved access to networks (total)	
		3. Utility networks created or reconstructed (length, km)	6. Clean water and sanitation 7. Affordable and clean energy 9. Industries, innovation and infrastructure
		4. Annual energy savings (MWh for electricity and/or GJ for other energy savings per year)	
		5. Reduction in direct water loss during treatment, transport and distribution (cubic metres)	
		6. Reduction in specific end-user water consumption (%)	
		7. Gross annual amount of recycled dry sediment (tonnes of dry matter per year and %)	
Objective 2. Facilitating sustainable development of Belarus's energy system	Priority 2.1. Creating and modernising energy infrastructure	1. Power lines created or reconstructed (length, km)	7. Affordable and clean energy 13. Climate action 17. Partnerships for sustainable development
	Priority 2.2. Transition to a green agenda	1. Share of RES in power generation (%)	
		2. Annual reduction in direct greenhouse gas emissions by replacing fossil fuel generation facilities (tonnes of CO_2-eq per year)	

Objective	Priority	Measure	SDG
Objective 3. Modernising and developing industry	Priority 3.1. Modernising industry	1. Annual reduction in business costs (US $)	6. Clean water and sanitation 9. Industries, innovation and infrastructure 12. Responsible consumption and production
		2. Additional output (US $)	
		3. Annual energy savings (MWh for electricity and/or GJ for other energy savings per year)	
		4. Increase in the share of recycled water (%)	
	Priority 3.2. Promoting the establishment and development of new industries	1. Additional high value-added output (US $)	8. Decent work and economic growth 9. Industries, innovation and infrastructure
		2. New jobs (total)	
Objective 4. Developing export potential and business support	Priority 4.1. Promoting cooperation and trade ties, with EAEU countries in the first place	1. Documentary transactions supporting foreign trade with EDB countries (US $)	9. Industries, innovation and infrastructure 17. Partnerships for sustainable development
		2. Index of trade intensity with EDB member countries (%)	
	Priority 4.2. Supporting small and medium-sized enterprises	1. Loans to SMEs (US $)	8. Decent work and economic growth 17. Partnerships for sustainable development
		2. Number of jobs created as a result of supporting SMEs in the programme area (total)	
		3. Target financing, excluding trade transactions (US $)	
Cross-cutting objective 5. Digital transformation	-	1. Number of users of digital solutions or digital transactions based on those solutions (total)	9. Industries, innovation and infrastructure
		2. Digital project financing (US $)	

Source: the EDB

↑ Table 3. EDB Country Strategy for Belarus: objectives and sustainable development outputs

4.3. Country Strategy implementation risks



Insufficient skills or resources to create documentation for priority projects

To mitigate the risk :
the EDB will use its Technical Assistance Fund to finance project planning to make potentially high impact projects more attractive to investors.



Regulatory environment not conducive to integration-related investment projects

To mitigate the risk :
the EDB will work closely with Belarus's government and Ministry of Finance and with the EEC to harmonise legislation and remove institutional barriers.



Lack of collateral

To mitigate the risk :
and implement projects with the highest potential impact, the EDB will consider alternative sources of collateral, including insurance from the Guarantee Fund, guarantees from other MDBs and EFSD instruments.



Risk of increased sanctions

To mitigate the risk :
and implement projects with the highest potential impact, the EDB will consider financing Belarusian companies that are not subject to sanctions and investors from EAEU member states.



Risk of failing to raise sufficient extra capital from existing shareholders

Additional capital is necessary to support the objectives of the Bank's 2026 Strategy and country strategies, namely, to boost investment and implement the Bank's unique development agenda in the EDB region. The lack of additional capitalisation would mean that the Bank would meet only some of its strategic objectives. It would see a cap on the organic growth of its investment and would fail to make transformational change.

To mitigate the risk:
the EDB will consider mobilising additional capital by issuing subordinated debt instruments and will continue to work on expanding its membership structure with new shareholders.

ANNEX 1.
Government Documents

Belarus has 30 public documents governing its 2021–2026 strategic objectives. The following programmes and documents are relevant to the EDB's potential project participation.

Sector	Document
All sectors	2035 National Strategy for Sustainable Development of the Republic of Belarus
	2021–2025 Social and Economic Development Programme of the Republic of Belarus
	2021–2025 State Innovative Development Programme of the Republic of Belarus
	Set of measures to launch a new investment cycle
Manufacturing	2021–2025 State Programme for Knowledge-Intensive Technology and Engineering
	Union Programme to Develop of a Single Industrial Policy
Agriculture	2021–2025 State Agrarian Business Programme
Energy	2021–2025 State Energy Saving Programme
	Union electricity market unification programme
Infrastructure and transport	2021–2025 State "Roads of Belarus" Programme
	2021–2025 State Transport Sector Programme
	2021–2025 National Infrastructure Plan
	2021–2025 State Comfortable Housing and Enabling Environment Programme
Communications and information	Union programme to develop common principles for a single ICT market
Digitalisation	2021–2025 State Digital Development Programme of Belarus
	Decree 156 of the President of the Republic of Belarus dated 7 May 2020 On Priority Developments in Science, Technology and Innovations for 2021–2025
	Decree 8 of the President of the Republic of Belarus dated 21 December 2018 On Developing a Digital Economy

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